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SUBJECT: UGANDA'S CUT FLOWER INDUSTRY IS WILTING

¶1. Summary: Uganda's cut flower industry, once seen as a potential engine of economic growth, is suffering a major downturn due to the global financial crisis and domestic challenges. Industry experts are calling for government intervention to revive Uganda's flower industry, as the domestic ripple effect of decreased flower exports to Europe and the U.S. (under AGOA) is expected to negatively impact the growth of the Ugandan economy. End Summary.

## Early Blooming

¶2. Uganda's flower industry was established in 1993. It occupies 205 hectares of land and employs about 6,500 people. Uganda is the 5th largest African exporter of cut flowers and has an advantage over other flower growing locations because Uganda's climate allows for year round growing. Export earnings from the cut flower industry average about $30 million annually and are an important source of foreign exchange for the Ugandan economy. Flower production and earnings peaked in 2005 at 7,500 tons worth $35 million. This strong growth had a broad impact on the economy. In Uganda it is estimated that one wage earner takes care of ten people, greatly magnifying the impact of 6,500 jobs. Further, the growth in this industry spurred growth in agricultural suppliers and other related sectors.

## Starting to Wilt

¶3. Uganda's cut flower industry took a hit in 2006 when two major farms were damaged by hail storms, and two others closed due to financial difficulties. Power outages also worsened in 2006 due to low rainfall, and a specific rose variety grown in Uganda was blacklisted on the world market. This resulted in only 6,800 tons of production worth $27 million. While earnings rose again in 2008, production remained stagnant. In 2009, production and earnings are expected to decline again as the main destination of flower exports is the European Union, where the financial crisis has decreased demand and reduced world prices by 30-50%. As a result, most flower growers in Uganda have scaled down both production and staff.

¶4. Other local developments have also hurt the Ugandan flower industry. Financing is difficult due to high interest rates and short repayment terms for bank loans. Electricity supplied from the grid has become increasingly expensive and unreliable as increasing demands outpace power production. Due to rolling black-outs, farmers are resorting to diesel powered generators - pushing production costs even higher. Exporters also complain of high freight charges. Relatively few cargo planes come into Uganda due to the generally low volume of exports, resulting in higher transport costs compared to other flower exporting countries in the region such as Kenya.

## No Fertilizer From the Government

¶5. Some industry insiders feel government support is necessary for

the industry to thrive. Five years ago, the Uganda Flower Exporters Association (UFEA) forecast that sales could double in three years with government support. They asked the government for land and infrastructure, exemption from double taxation of profits, improved cold storage facilities, subsidized airfreight charges and access to long-term financing. According to Juliet Musoke, Executive Director of the Association, these elements were part of an industry strategic plan to build investor confidence and expand the production area to 350 hectares and increase earnings to $44 million per year. In response, the government gave growers some tax breaks. However, the key issues of land, infrastructure, financing, airfreight subsidies and improvement of cold storage facilities remain unaddressed. Due to the harsh investment climate in the sector, no new investments have been made in the last six years and no new investors are expected in the near future.

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¶6. Since 1993 cut flowers have earned Uganda an average of $30 million annually. While the bulk of these exports are to the European Union, Uganda also exports cut flowers to the U.S. under AGOA. This downturn illustrates some of the challenges to exports inherent in many less-developed countries. Cut flowers, an industry in which Uganda should have a comparative advantage, is rendered uncompetitive due to poor infrastructure, inadequate access to capital, and transport costs. These are challenges that even a preferential trade regime such as AGOA probably cannot overcome. With over 80% of the Uganda population making their living from agriculture, a slump in cut flowers will have a ripple effect in other agricultural sectors.

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